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The effects of the internationalization of Danish enterprises on home employment and wages: Analysis of firm data

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Abstract

In recent years the increasing level of internationalization of firms has spawned a debate on both sides of the Atlantic about the consequences of foreign operations for home employment. There are two sides in the debate. One is that foreign operations complement labor demand at home through increased net trade of intermediate goods and increased demand for employees in administration, service and R&D in the parent company. The other side is that foreign operations replace some of domestic employment by moving home operations, typically production, to foreign affiliates in low wage countries. The public discussion very much focuses on the latter and the fear of a reduction in domestic employment.

Empirical evidence informing the debate is relatively scarce, however. Earlier studies are based on industry level data and make use of trade statistics to construct rather unsatisfactory measures of internalization of firms. Only a limited number of empirical studies have been directly based on firm level data, mainly from the U.S. and Sweden (Lipseý (1994), Blomström et al (1997) and Slaughter (1995, 2000)).

In addition to the effects on home employment we also examine the impact of internationalization on the employment structures of the parent companies. More precisely, the Danish data allow us to examine how foreign operations affect the demand for workers with different education backgrounds. A novel feature of our study is that we investigate the effects of internationalization on the wage levels of the employees in the Danish multinational parent companies. Production transfer within MNEs from home to foreign affiliates, especially to those in low wage countries, is likely to decrease the employees' bargaining power at home, and hence lead to a reduction in the wage of their workers.

For these purposes we use two questionnaires directed to Danish firms to construct a data set which contain information about Danish multinational enterprises' foreign operations; Etableringsundersøgelsen (1998) and (2003) carried out by Dansk Industri. These data sets will in turn be merged with a sample from the linked employer-employee data set (IDA) maintained by Statistics Denmark which has been augmented by information from a firm accounts database (KOB), which contains all the Danish VAT registered enterprises. This provides us with a number of background variables and allows us to construct several of labor market outcome variables at the level of individuals or firms. The data set is quite rich and allows us to study whether the impacts differ across regions. This is crucial as the role of foreign operations in Central and Eastern Europe, China, India and other low wage countries has grown substantially during the recent decade. We also distinguish between different workforce categories (skills, job functions) as these may be affected differently.